

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Grandville, Michigan	County Kent
Audit Date June 30, 2004	Opinion Date October 8, 2004	Date Accountant Report Submitted To State: December 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address Bridgewater Place, 333 Bridge St. NW, Suite 600	City Grand Rapids	State MI	ZIP 49504
Accountant Signature 			

City of Grandville, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Grandville, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Statement of Revenue, Expenditures, and Changes in Fund Balances	11
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Proprietary Funds:	
Statement of Net Assets	13
Statement of Revenue, Expenses, and Changes in Fund Net Assets	14
Statement of Cash Flows	15
Fiduciary Fund - Statement of Assets and Liabilities	16
Notes to Financial Statements	17-36
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	37-38
Budgetary Comparison Schedule - Major Special Revenue Funds:	
Major Streets Fund	39
Local Streets Fund	40
Other Supplemental Information	
Nonmajor Governmental Funds:	
Combining Balance Sheet	41
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	42
Fiduciary Funds - Combining Statement of Assets and Liabilities	43

Independent Auditor's Report

To the Mayor and City Council
City of Grandville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grandville, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grandville, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grandville, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Mayor and City Council
City of Grandville, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grandville, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 8, 2004

City of Grandville, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Grandville, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 7,953,260	\$ 8,164,064	\$ 9,613,126	\$ 8,672,136	\$ 17,566,386	\$ 16,836,200
Noncurrent assets	32,369,333	35,590,408	18,224,464	18,453,970	50,593,797	54,044,378
Total assets	40,322,593	43,754,472	27,837,590	27,126,106	68,160,183	70,880,578
Liabilities						
Current liabilities	980,169	1,438,189	600,743	394,742	1,580,912	1,832,931
Long-term liabilities	6,821,012	7,002,075	4,478,613	4,967,252	11,299,625	11,969,327
Total liabilities	7,801,181	8,440,264	5,079,356	5,361,994	12,880,537	13,802,258
Net Assets						
Invested in capital assets -						
Net of related debt	26,079,333	28,503,332	13,066,074	12,915,667	39,145,407	41,418,999
Restricted	2,491,570	1,897,331	693,800	682,950	3,185,370	2,580,281
Unrestricted	3,950,509	4,913,545	8,998,360	8,165,495	12,948,869	13,079,040
Total net assets	<u>\$ 32,521,412</u>	<u>\$ 35,314,208</u>	<u>\$ 22,758,234</u>	<u>\$ 21,764,112</u>	<u>\$ 55,279,646</u>	<u>\$ 57,078,320</u>

City of Grandville, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets decreased 3.2 percent from a year ago - decreasing from \$57,078,320 to \$55,279,646. As we look at the governmental activities separately from the business-type activities, we can see that unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$963,036 for the governmental activities. This represents a decrease of approximately 19.6 percent. The current level of unrestricted net assets for our governmental activities stands at \$3,950,509.

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$150,000 this year. The City reacted by continuing to utilize its fund balance reserves to maintain an expenditure level that enhances the quality of life enjoyed by our citizens. Over the last three years, the City's State revenue sharing has been reduced by over 17 percent, creating approximately \$250,000 in cumulative losses, while State and federal mandates continue to increase City expenditures.
- City property tax revenue increased 19 percent from 2003. The City increased its millage rate of 7.299 per thousand dollars of taxable property value to 8.454 in the current year. The increased tax revenue, as a result of the additional 1.155 mills, was designated to the Major and Local Streets Funds.

The following table shows the changes of the net assets during the current year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 2,591,978	\$ 1,929,277	\$ 5,317,461	\$ 5,139,934	\$ 7,909,439	\$ 7,069,211
Operating grants and contributions	1,621,106	1,135,445	-	-	1,621,106	1,135,445
Capital grants and contributions	110,140	503,463	48,046	180,240	158,186	683,703
General revenue:						
Property taxes	5,258,488	4,407,820	-	-	5,258,488	4,407,820
State-shared revenue	1,342,795	1,494,621	-	-	1,342,795	1,494,621
Unrestricted investment earnings	152,413	244,759	117,860	191,265	270,273	436,024
Franchise fees	118,124	119,608	-	-	118,124	119,608
Other revenue	96,726	77,612	-	-	96,726	77,612
Total revenue	11,291,770	9,912,605	5,483,367	5,511,439	16,775,137	15,424,044

City of Grandville, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Expenses						
General government	\$ 2,206,603	\$ 2,077,750	\$ -	\$ -	\$ 2,206,603	\$ 2,077,750
Judicial	633,327	574,012	-	-	633,327	574,012
Public safety	3,988,227	3,596,424	-	-	3,988,227	3,596,424
Public works	5,356,825	4,802,805	-	-	5,356,825	4,802,805
Recreation and culture	1,547,425	1,377,216	-	-	1,547,425	1,377,216
Interest on long-term debt	352,159	360,935	-	-	352,159	360,935
Water and sewer	-	-	4,489,245	4,302,859	4,489,245	4,302,859
Total program expenses	14,084,566	12,789,142	4,489,245	4,302,859	18,573,811	17,092,001
Change in Net Assets	\$ (2,792,796)	\$ (2,876,537)	\$ 994,122	\$ 1,208,580	\$ (1,798,674)	\$ (1,667,957)

Governmental Activities

The City's total governmental revenues increased by approximately \$1,379,000. The increase, which represents 13.9 percent, was primarily due to property tax revenue.

Expenses increased by \$1,295,424 during the year. Increases were led by the public safety and public works programs.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to City residents by purchasing directly from the Wyoming City Water System. We provide sewage treatment through a City-owned and operated sewage treatment plant. Water rates decreased 9 cents per thousand gallons and sewer rates remained the same this year.

The City's Funds

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2004 include the General Fund, the Major and Local Streets Funds, and the Improvement Revolving Fund, which accounts for special assessment receipts and disbursements to other funds.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of \$3,268,303, approximately 35 percent of the total General Fund budget. The City planned General Fund expenditures to exceed revenues as it continues to reduce its unrestricted net assets. The City's goal is to limit unrestricted net assets to 25 percent of normal expenditures.

City of Grandville, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to reflect an increase in general administration expenditures. Other changes were made to increase expenditure authorizations for parks and recreation, library, and capital outlay. City department overall expenditure levels stayed under budget by \$420,022, or 4.8 percent.

Capital Asset and Debt Administration

There was no increase in the City's indebtedness during the year, nor any change in the City's high credit rating. The City continues to invest in its capital assets by adhering to its five-year capital plan. During the year, the City invested approximately \$1,342,000 in Major and Local Streets, and continued its investment in office furnishings and equipment. The City is continuing planned improvements in its Water and Sewer Funds with expenditures of approximately \$641,000 in the current year.

Economic Factors and Next Year's Budgets and Rates

The City anticipates that there will be a continued decline in State revenue-sharing income coupled with increased unfunded mandates by both the State and federal government. This will undoubtedly shift tax burdens even more to the local level. Property tax revenue is anticipated to increase, but will not likely be enough to offset decreases in revenue sharing and inflationary increases such as employee health care. The City will address this issue by strictly adhering to the maintenance of department budgets and by developing budget alternatives that can be implemented upon notification of any mid-year revenue decreases. Finally, the City will continue to utilize its excess unrestricted General Fund balance.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of City finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager or city finance director.

City of Grandville, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 2,791,397	\$ 3,264,546	\$ 6,055,943	\$ 366,193
Investments (Note 3)	3,833,704	5,294,060	9,127,764	617,308
Receivables - Net (Note 4)	1,328,159	1,054,520	2,382,679	3,355
Restricted assets (Note 7)	-	693,800	693,800	-
Capital assets - Net (Note 5)	32,369,333	14,043,164	46,412,497	398,759
Intangible assets (Note 5)	-	3,487,500	3,487,500	-
Total assets	40,322,593	27,837,590	68,160,183	1,385,615
Liabilities				
Accounts payable	490,035	485,721	975,756	2,107
Accrued and other liabilities	490,134	115,022	605,156	143
Long-term liabilities				
Due in one year:				
Compensated absences	331,859	14,023	345,882	-
Long-term debt (Note 7)	410,000	437,233	847,233	-
Due in more than one year:				
Compensated absences	199,153	-	199,153	-
Long-term debt (Note 7)	5,880,000	4,027,357	9,907,357	-
Total liabilities	7,801,181	5,079,356	12,880,537	2,250
Net Assets				
Invested in capital assets - Net of related debt	26,079,333	13,066,074	39,145,407	398,759
Restricted:				
Cemetery	424,243	-	424,243	-
Drug forfeitures	154,934	-	154,934	-
Debt retirement	28,672	-	28,672	-
Roads	1,874,904	-	1,874,904	-
Other purposes	8,817	-	8,817	-
Revenue bond reserve	-	693,800	693,800	-
Unrestricted	3,950,509	8,998,360	12,948,869	984,606
Total net assets	\$ 32,521,412	\$ 22,758,234	\$ 55,279,646	\$ 1,383,365

City of Grandville, Michigan

	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,206,603	\$ 1,018,195	\$ -	\$ -
Judicial	633,327	325,914	38,274	-
Public safety	3,988,227	518,283	57,024	-
Public works	5,356,825	370,554	1,175,787	110,140
Recreation and culture	1,547,425	359,032	350,021	-
Interest on long-term debt	352,159	-	-	-
Total governmental activities	14,084,566	2,591,978	1,621,106	110,140
Business-type activities - Water and sewer	4,489,245	5,317,461	-	48,046
Total primary government	<u>\$ 18,573,811</u>	<u>\$ 7,909,439</u>	<u>\$ 1,621,106</u>	<u>\$ 158,186</u>
Component units - Downtown Development Authority	<u>\$ 102,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - July 1, 2003				
Net Assets - June 30, 2004				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,188,408)	\$ -	\$ (1,188,408)	\$ -
(269,139)	-	(269,139)	-
(3,412,920)	-	(3,412,920)	-
(3,700,344)	-	(3,700,344)	-
(838,372)	-	(838,372)	-
(352,159)	-	(352,159)	-
(9,761,342)	-	(9,761,342)	-
-	876,262	876,262	-
(9,761,342)	876,262	(8,885,080)	-
-	-	-	(102,098)
5,258,488	-	5,258,488	244,099
1,342,795	-	1,342,795	-
152,413	117,860	270,273	14,062
118,124	-	118,124	-
96,726	-	96,726	-
6,968,546	117,860	7,086,406	258,161
(2,792,796)	994,122	(1,798,674)	156,063
35,314,208	21,764,112	57,078,320	1,227,302
\$ 32,521,412	\$ 22,758,234	\$ 55,279,646	\$ 1,383,365

City of Grandville, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,567,806	\$ 600,495	\$ 232,796	\$ 21,259	\$ 168,009	\$ 2,590,365
Investments	1,819,374	1,178,654	226,066	35,837	234,887	3,494,818
Receivables - Net	528,464	146,072	48,823	600,202	1,276	1,324,837
Total assets	<u>\$ 3,915,644</u>	<u>\$ 1,925,221</u>	<u>\$ 507,685</u>	<u>\$ 657,298</u>	<u>\$ 404,172</u>	<u>\$ 7,410,020</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 257,315	\$ 107,967	\$ 115,164	\$ -	\$ 525	\$ 480,971
Accrued and other liabilities	93,909	331,768	3,103	-	168	428,948
Deferred revenue (Note 4)	-	-	-	600,006	-	600,006
Total liabilities	351,224	439,735	118,267	600,006	693	1,509,925
Fund Balances						
Reserved:						
Cemetery	424,243	-	-	-	-	424,243
Drug forfeitures	154,934	-	-	-	-	154,934
Debt retirement	-	-	-	-	28,672	28,672
Other purposes	8,817	-	-	-	-	8,817
Unreserved - Reported in:						
General Fund	2,976,426	-	-	-	-	2,976,426
Special Revenue Funds	-	1,485,486	389,418	-	345,602	2,220,506
Debt Service Funds	-	-	-	-	29,205	29,205
Capital Projects Funds	-	-	-	57,292	-	57,292
Total fund balances	<u>3,564,420</u>	<u>1,485,486</u>	<u>389,418</u>	<u>57,292</u>	<u>403,479</u>	<u>5,900,095</u>
Total liabilities and fund balances	<u>\$ 3,915,644</u>	<u>\$ 1,925,221</u>	<u>\$ 507,685</u>	<u>\$ 657,298</u>	<u>\$ 404,172</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	31,111,153
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	600,006
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(6,290,000)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the funds	(54,810)
Internal Service Funds are included as part of governmental activities	1,785,980
Compensated absences included as a liability in governmental activities	(531,012)

Net assets of governmental activities \$ 32,521,412

City of Grandville, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Other Governmental Funds	Total Governmental Funds
Revenue						
Property taxes	\$ 4,551,860	\$ 303,924	\$ 402,704	\$ -	\$ -	\$ 5,258,488
Licenses and permits	227,453	-	-	-	-	227,453
Federal sources	27,141	-	-	-	-	27,141
State sources	1,774,262	820,457	280,071	-	-	2,874,790
Local sources	-	75,259	-	-	-	75,259
Special assessment collections	-	-	-	193,250	-	193,250
Fines and forfeitures	647,151	-	-	-	-	647,151
Charges for services	729,507	-	-	-	20,372	749,879
Interest income	68,269	21,185	3,771	47,197	5,422	145,844
Rental income	6,285	-	-	-	322,128	328,413
Cable revenue	118,124	-	-	-	-	118,124
Other	86,401	-	-	-	-	86,401
Total revenue	8,236,453	1,220,825	686,546	240,447	347,922	10,732,193
Expenditures						
Current:						
General government	2,119,577	-	-	27,187	-	2,146,764
Judicial	581,996	-	-	-	-	581,996
Public safety	3,624,856	-	-	-	-	3,624,856
Public works	458,853	615,725	387,865	-	40,928	1,503,371
Recreation and culture	1,291,875	-	-	-	-	1,291,875
Capital outlay	720,530	435,186	133,303	-	-	1,289,019
Debt service	-	-	-	-	584,738	584,738
Total expenditures	8,797,687	1,050,911	521,168	27,187	625,666	11,022,619
Excess of Revenue Over (Under) Expenditures	(561,234)	169,914	165,378	213,260	(277,744)	(290,426)
Other Financing Sources (Uses)						
Transfers in	-	204,357	-	-	267,579	471,936
Transfers out	(265,000)	-	-	(206,936)	-	(471,936)
Total other financing sources (uses)	(265,000)	204,357	-	(206,936)	267,579	-
Net Change in Fund Balances	(826,234)	374,271	165,378	6,324	(10,165)	(290,426)
Fund Balances - July 1, 2003	4,390,654	1,111,215	224,040	50,968	413,644	6,190,521
Fund Balances - June 30, 2004	\$ 3,564,420	\$ 1,485,486	\$ 389,418	\$ 57,292	\$ 403,479	\$ 5,900,095

City of Grandville, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (290,426)

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures;
however, in the statement of activities, these costs are
allocated over their estimated useful lives as depreciation.
This is the amount by which depreciation exceeds
capital outlays in the current period (2,510,271)

Special assessment revenues are recorded in the statement of
activities when the assessment is set; they are not
reported in the funds until collected or collectible within
60 days of year end (193,250)

Repayments of bond principal is an expenditure in the
governmental funds, but not in the statement of activities
(where it reduces long-term debt) 235,000

Interest expense incurred on outstanding bond principal
payments that are recorded when earned in the statement
of activities 1,077

Increase in accumulated employee sick and vacation pay is
recorded when earned in the statement of activities (53,937)

Internal Service Funds are also included as governmental activities 19,011

Change in Net Assets of Governmental Activities \$ (2,792,796)

City of Grandville, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise Funds			Internal Service Funds
	Water	Sewer	Totals	
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,344,292	\$ 1,920,254	\$ 3,264,546	\$ 201,032
Investments (Note 3)	2,057,001	3,237,059	5,294,060	338,886
Receivables - Net (Note 4)	438,063	616,457	1,054,520	3,322
Total current assets	3,839,356	5,773,770	9,613,126	543,240
Noncurrent assets:				
Restricted assets (Note 7)	151,800	542,000	693,800	-
Capital assets (Note 5)	5,812,757	8,230,407	14,043,164	1,258,180
Intangible assets	-	3,487,500	3,487,500	-
Total noncurrent assets	5,964,557	12,259,907	18,224,464	1,258,180
Total assets	9,803,913	18,033,677	27,837,590	1,801,420
Liabilities				
Current liabilities:				
Accounts payable	110,561	375,160	485,721	9,065
Accrued and other liabilities	3,496	111,526	115,022	6,375
Provision for compensated absences	14,023	-	14,023	-
Current portion of long-term debt (Note 7)	179,746	257,487	437,233	-
Total current liabilities	307,826	744,173	1,051,999	15,440
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	-	4,027,357	4,027,357	-
Total liabilities	307,826	4,771,530	5,079,356	15,440
Net Assets				
Investment in capital assets - Net of related debt	5,633,011	7,433,063	13,066,074	1,258,180
Restricted	151,800	542,000	693,800	-
Unrestricted	3,711,276	5,287,084	8,998,360	527,800
Total net assets	<u>\$ 9,496,087</u>	<u>\$ 13,262,147</u>	<u>\$ 22,758,234</u>	<u>\$ 1,785,980</u>

City of Grandville, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise Funds			Internal Service Funds
	Water	Sewer	Totals	
Operating Revenue				
Sale of water	\$ 1,386,417	\$ -	\$ 1,386,417	\$ -
Sewage disposal charges	-	3,550,956	3,550,956	-
Interest and penalty charges	14,816	11,457	26,273	-
Installation fees	44,745	306,138	350,883	-
Other charges for services	2,932	-	2,932	609,060
Total operating revenue	1,448,910	3,868,551	5,317,461	609,060
Operating Expenses				
Cost of water produced/purchased	446,912	-	446,912	-
Cost of sewage treatment	-	812,765	812,765	-
Billing and administrative costs	520,871	1,779,250	2,300,121	338,200
Depreciation and amortization	170,683	483,998	654,681	285,478
Total operating expenses	1,138,466	3,076,013	4,214,479	623,678
Operating Income (Loss)	310,444	792,538	1,102,982	(14,618)
Nonoperating Revenue (Expense)				
Investment income	45,906	71,954	117,860	6,571
Interest expense	(13,976)	(260,790)	(274,766)	-
Gain on sale of equipment	-	-	-	27,058
Total income before contributions	342,374	603,702	946,076	19,011
Capital Contributions - Donations from private sources	25,111	22,935	48,046	-
Change in Net Assets	367,485	626,637	994,122	19,011
Net Assets - Beginning of year	9,128,602	12,635,510	21,764,112	1,766,969
Net Assets - End of year	<u>\$ 9,496,087</u>	<u>\$ 13,262,147</u>	<u>\$ 22,758,234</u>	<u>\$ 1,785,980</u>

City of Grandville, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise Funds			Internal Service Funds
	Water	Sewer	Totals	
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,476,395	\$ 3,950,098	\$ 5,426,493	\$ -
Payments to suppliers	(831,505)	(1,578,329)	(2,409,834)	(283,865)
Payments to employees	(131,349)	(910,490)	(1,041,839)	(66,303)
Internal activity - Receipts from other funds	-	-	-	607,668
Net cash provided by operating activities	513,541	1,461,279	1,974,820	257,500
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(33,229)	(348,384)	(381,613)	(147,071)
Capital contributions	25,111	22,935	48,046	-
Proceeds from sale of capital assets	-	-	-	37,382
Principal and interest paid on capital debt	(177,450)	(520,791)	(698,241)	-
Net cash used in capital and related financing activities	(185,568)	(846,240)	(1,031,808)	(109,689)
Cash Flows from Investing Activities				
Interest received on investments	45,906	71,954	117,860	6,571
Purchase of investment securities	(579,572)	(1,069,682)	(1,649,254)	(153,156)
Proceeds from sale and maturities of investment securities	40,488	65,995	106,483	6,883
Net cash used in investing activities	(493,178)	(931,733)	(1,424,911)	(139,702)
Net Increase (Decrease) in Cash and Cash Equivalents	(165,205)	(316,694)	(481,899)	8,109
Cash and Cash Equivalents - Beginning of year	<u>1,661,297</u>	<u>2,778,948</u>	<u>4,440,245</u>	<u>192,923</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,496,092</u>	<u>\$ 2,462,254</u>	<u>\$ 3,958,346</u>	<u>\$ 201,032</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,344,292	\$ 1,920,254	\$ 3,264,546	\$ 201,032
Restricted investments (Note 7)	151,800	542,000	693,800	-
Total cash and cash equivalents	<u>\$ 1,496,092</u>	<u>\$ 2,462,254</u>	<u>\$ 3,958,346</u>	<u>\$ 201,032</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 310,444	\$ 792,538	\$ 1,102,982	\$ (14,618)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	170,683	483,998	654,681	285,478
Changes in assets and liabilities:				
Receivables	27,485	81,547	109,032	(1,392)
Accounts payable	9,936	96,712	106,648	(12,528)
Accrued and other liabilities	(5,007)	6,484	1,477	560
Net cash provided by operating activities	<u>\$ 513,541</u>	<u>\$ 1,461,279</u>	<u>\$ 1,974,820</u>	<u>\$ 257,500</u>

There were no noncash transactions during the year.

City of Grandville, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2004

	<u>Agency Funds</u>
Assets - Cash and cash equivalents (Note 3)	<u>\$ 183,301</u>
Liabilities	
Accrued and other liabilities	\$ 172,417
Due to other governmental units	<u>10,884</u>
Total liabilities	<u>\$ 183,301</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Grandville, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Grandville:

Reporting Entity

The City of Grandville is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The 59th District Court has been blended into the General Fund of the City’s financial statements. Although the Court operates under the direction of the district judge, it is reported as if it were part of the primary government because of the fiduciary responsibility the City retains relative to the operations of the Court.

The City of Grandville’s Building Authority is governed by a four-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to monitor and finance the construction of the City’s public buildings.

Discretely Presented Component Units

The Downtown Development Authority is reported within the component unit column in the government-wide financial statements to emphasize that it is legally separate from the City. The Authority was created to correct and prevent deterioration, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority’s budget is subject to approval by the City Council. A separate report is not issued for the Authority.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from income taxes, property taxes, State-shared revenue, and other sources.

Major Streets Fund - The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

Revolving Fund - The Revolving Fund accounts for the resources of special assessment proceeds that are used for use on special assessment districts.

The City reports the following major proprietary funds:

Water and Sewer Funds - The Water and Sewer Funds account for the activities of the water distribution system and sewage collection system. These funds are financed primarily by user charges.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost-reimbursement basis.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Recreation Fund, the Series 2000 Bond Fund, the 59th District Court, and the County and School Tax Fund. The Recreation Fund, 2000 Bond Fund, the 59th District Court, and the County and School Tax Fund are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Nonmajor Governmental Funds - Nonmajor governmental funds consist of a Special Revenue Storm Sewer Trunkage and a General Debt Service Fund. Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services and charges to other funds. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of equipment and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year, at which time they are added to the county tax rolls. The 2003 valuation of the City totaled \$618 million, which taxes were levied at 8.454 mills for the City's operating purposes. Property tax revenue amounted to \$5,258,488 in the current year and was recorded in the General Fund, Major Street Fund, and Local Street Fund.

Inventories and Prepaid Items - Inventories in the proprietary funds would be valued at cost, on a first-in, first-out basis, which would approximate market value. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The restricted assets in the General Fund consist of (a) monies that have been accumulated from drug forfeitures and are restricted by the State of Michigan to be used for future drug prevention programs; (b) restricted cash and investments to be spent on Metro H.S. Police Academy, and (c) the cemetery.

The remaining assets are restricted pursuant to the resolutions for the 1989 Water and Supply System and 1996 Sewage System Revenue Bonds and the Official Statement of the 1999 Building Authority General Obligation Limited Tax Bonds.

Net assets resulting from the issuance of bonds and related interest income (net of accounts payable from restricted assets) have been reserved in the Debt Service Fund and the General Fund. Net assets have also been reserved in the Enterprise Funds pursuant to the revenue bond resolutions for future revenue bond debt service.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10 to 50 years
Water and sewer distribution systems	10 to 100 years
Water and sewer treatment facilities	10 to 50 years
Land improvements	15 to 20 years
Buildings and building improvements	7 to 45 years
Vehicles	3 to 15 years
Office furnishings	5 to 20 years
Other tools and equipment	5 to 40 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the City's financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by City management and is adopted by the City Council approximately 30 days before the start of the beginning of the fiscal year. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of the public hearing shall be published at least one week in advance by the clerk. Subsequent amendments are approved by the City Council in a similar process. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. Amounts encumbered for purchased orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or services rendered. The amount of encumbrances is not calculated as of June 30, 2004.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the total fund level. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund, Major Streets Fund, and Local Streets Fund budgets, as adopted by the City Council, is included in the fund financial statements. A comparison of actual results of operations to other funds' budgets can be obtained at City Hall.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances during the year.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The governing body has designated various banks for the deposit of Local Unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and the remainder of State statutory authority as listed above. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that the Agency Funds' investment earnings are allocated to the General Fund.

The City's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 2,791,397	\$ 3,264,546	\$ 183,301	\$ 6,239,244	\$ 366,193
Investments	3,833,704	5,294,060	-	9,127,764	617,308
Restricted assets	-	693,800	-	693,800	-
Total	<u>\$ 6,625,101</u>	<u>\$ 9,252,406</u>	<u>\$ 183,301</u>	<u>\$ 16,060,808</u>	<u>\$ 983,501</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 10,057,287	\$ 590,349
Investments in securities, mutual funds, and similar vehicles	6,003,221	393,152
Petty cash or cash on hand	<u>300</u>	<u>-</u>
Total	<u>\$ 16,060,808</u>	<u>\$ 983,501</u>

Note 3 - Deposits and Investments (Continued)

The bank balance of the City's deposits is \$10,455,795, of which \$945,000 is covered by federal depository insurance and \$9,510,795 is uninsured and uncollateralized. The component units' deposits had a bank balance of \$613,543, of which \$55,000 is covered by federal depository insurance and \$558,543 is uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - U.S. government securities	\$ -	\$ 3,938,755	\$ -	\$ 3,938,755
Investments not subject to categorization - Bank investment pool funds				2,064,466
Total primary government				\$ 6,003,221
Component units - U.S. government securities	\$ -	\$ 256,125	\$ -	\$ 256,125
Investments not subject to categorization - Bank investment pool funds				137,027
Total component units				\$ 393,152

Note 3 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Water Fund	Sewer Fund	Nonmajor and Other Funds	Total
Receivables:								
Special assessments	\$ -	\$ -	\$ -	\$ 600,006	\$ -	\$ -	\$ -	\$ 600,006
Accounts	68,803	352	-	-	426,023	616,457	-	1,111,635
Intergovernmental	450,168	139,318	47,598	-	-	-	-	637,084
Interest and other	9,493	6,402	1,225	196	12,040	-	1,276	30,632
Less allowance for uncollectibles	-	-	-	-	-	-	-	-
Net receivables	<u>\$ 528,464</u>	<u>\$ 146,072</u>	<u>\$ 48,823</u>	<u>\$ 600,202</u>	<u>\$ 438,063</u>	<u>\$ 616,457</u>	<u>\$ 1,276</u>	2,379,357
Internal service:								
Accounts								1,482
Interest and other								<u>1,840</u>
Net receivables								<u>3,322</u>
Total government-wide receivables								<u>\$ 2,382,679</u>

City of Grandville, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Special assessments	<u>\$ 600,006</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,507,465	\$ -	\$ -	\$ 1,507,465
Construction in progress	280,064	-	(280,064)	-
Subtotal	1,787,529	-	(280,064)	1,507,465
Capital assets being depreciated:				
Roads and sidewalks	69,869,972	1,341,898	280,064	71,491,934
Land improvements	1,011,926	13,155	-	1,025,081
Buildings and improvements	8,325,956	21,200	-	8,347,156
Office furnishings and equipment	3,929,624	169,977	(75,199)	4,024,402
Subtotal	83,137,478	1,546,230	204,865	84,888,573
Accumulated depreciation:				
Roads and sidewalks	45,431,075	3,556,701	-	48,987,776
Land improvements	755,065	29,335	-	784,400
Buildings and improvements	1,709,179	192,980	-	1,902,159
Office furnishings and equipment	2,001,356	415,892	(64,878)	2,352,370
Subtotal	49,896,675	4,194,908	(64,878)	54,026,705
Net capital assets being depreciated	33,240,803	(2,648,678)	269,743	30,861,868
Net capital assets	<u>\$ 35,028,332</u>	<u>\$ (2,648,678)</u>	<u>\$ (10,321)</u>	<u>\$ 32,369,333</u>

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Construction in progress	539,013	279,203	(539,013)	279,203
Subtotal	554,013	279,203	(539,013)	294,203
Capital assets being depreciated:				
Water and sewer distribution systems	13,650,223	56,164	-	13,706,387
Buildings and building improvements	5,832,404	46,247	539,013	6,417,664
Other tools and equipment	2,197,237	-	-	2,197,237
Subtotal	21,679,864	102,411	539,013	22,321,288
Accumulated depreciation:				
Water and sewer distribution systems	4,612,268	294,060	-	4,906,328
Buildings and building improvements	1,751,636	119,349	-	1,870,985
Other tools and equipment	1,698,953	96,061	-	1,795,014
Subtotal	8,062,857	509,470	-	8,572,327
Net capital assets being depreciated	13,617,007	(407,059)	539,013	13,748,961
Net capital assets	\$ 14,171,020	\$ (127,856)	\$ -	\$ 14,043,164

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 47,614
Judicial	48,788
Public safety	144,580
Public works	3,582,517
Recreation and culture	85,931
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	285,478

Total governmental activities \$ 4,194,908

Business-type activities:

Water Fund	\$ 170,683
Sewer Fund	338,787

Total business-type activities \$ 509,470

Note 5 - Capital Assets (Continued)

As of June 30, 2004, the City had \$3,487,500 in unamortized intangible assets. The entire balance relates to sewage disposal rights. Amortization expense of \$145,211 was recognized in business-type activities.

Construction Commitments - The City has active construction projects at year end. The projects include the ultraviolet disinfection improvements and the watermain replacements. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Ultraviolet disinfection improvements	\$ 216,332	\$ 113,658
Watermain replacements	<u>-</u>	<u>452,463</u>
Total	<u>\$ 216,332</u>	<u>\$ 566,121</u>

Capital asset activity of the City's component unit was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Component Unit				
Capital assets not being depreciated - Land	\$ 201,207	\$ -	\$ -	\$ 201,207
Capital assets being depreciated - Land improvements	427,518	-	-	427,518
Accumulated depreciation - Land improvements	<u>(209,632)</u>	<u>(20,334)</u>	<u>-</u>	<u>(229,966)</u>
Net capital assets being depreciated	<u>217,886</u>	<u>(20,334)</u>	<u>-</u>	<u>197,552</u>
Net capital assets	<u>\$ 419,093</u>	<u>\$ (20,334)</u>	<u>\$ -</u>	<u>\$ 398,759</u>

Depreciation expense of \$20,334 of the component unit related solely to public works.

Note 6 - Interfund Receivables, Payables, and Transfers

Interfund Transfers

	Transfers Out		
	General Fund	Revolving Fund	Total
Transfers in:			
Major Streets Fund	\$ -	\$ 204,357	\$ 204,357
Other governmental funds	<u>265,000</u>	<u>2,579</u>	<u>267,579</u>
Total	<u>\$ 265,000</u>	<u>\$ 206,936</u>	<u>\$ 471,936</u>

The majority of the above interfund transfers are made from the Revolving Fund to the Major Streets Fund and from the General Fund to the General Debt Service Fund. The Revolving Fund accounts for special assessment receipts and disbursements to other funds for debt retirement. The transfer from the General Fund to the Debt Service Fund is also for debt retirement.

Note 7 - Long-term Debt

Covenants of the Revenue Bond Resolutions provide for, among other things, guidance on rate setting (required anticipation of debt coverage ratio), and various restrictions on the transfer of funds, issuance of additional debt, creation of liens, and the sale and lease of property. In accordance with the revenue bond resolutions, cash of \$693,800 has been required to be restricted for a bond reserve.

Excluded from the governmental activities are special assessment bonds that were issued during fiscal year 2001. The bonds, totaling \$4,395,000, were issued to offset infrastructure expenditures incurred during fiscal years 1999 and 2000 related to a significant capital project. The bonds are payable solely from the collection of the special assessment and are not a general obligation of the City. While the City remains the paying agent and maintains information related to the bonds, the obligation is not reflected in the City's financial statements.

General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
1992 Library Building Bonds, maturing through 2005, with interest ranging from 5.5% to 8.5%	\$ 485,000	\$ -	\$ 235,000	\$ 250,000	\$ 250,000
1999 Building Authority Bonds, maturing from 2004 through 2025, with interest ranging from 5% to 5.5%	6,040,000	-	-	6,040,000	160,000
Total governmental activities	6,525,000	-	235,000	6,290,000	410,000
Business-type Activities					
Revenue bonds:					
1996 Sewage System Bonds, maturing through 2016, with interest ranging from 5.1% to 5.7% (shown net of unamortized discount and bond issuance costs)	4,512,133	-	227,289	4,284,844	257,487
1989 Water Supply System Bonds, maturing through 2004, with interest ranging from 6% to 6.9% (shown net of unamortized discount)	343,220	-	163,474	179,746	179,746
Total business-type activities	4,855,353	-	390,763	4,464,590	437,233
Total long-term-debt	<u>\$ 11,380,353</u>	<u>\$ -</u>	<u>\$ 625,763</u>	<u>\$ 10,754,590</u>	<u>\$ 847,233</u>

Annual debt service requirements to maturity for the above governmental bonds are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 410,000	\$ 331,740	\$ 741,740	\$ 437,233	\$ 254,923	\$ 692,156
2006	170,000	309,740	479,740	272,487	235,085	507,572
2007	175,000	301,028	476,028	287,487	219,715	507,202
2008	185,000	291,848	476,848	302,487	203,398	505,885
2009	195,000	282,158	477,158	322,487	186,118	508,605
2010-2014	1,145,000	1,244,700	2,389,700	1,907,435	627,397	2,534,832
2015-2019	1,515,000	898,552	2,413,552	934,974	83,790	1,018,764
2020-2024	2,495,000	434,637	2,929,637	-	-	-
Total	<u>\$ 6,290,000</u>	<u>\$ 4,094,403</u>	<u>\$ 10,384,403</u>	<u>\$ 4,464,590</u>	<u>\$ 1,810,426</u>	<u>\$ 6,275,016</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage of certain employees' health claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and general liability insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City has purchased commercial insurance for coverage of health claims for all employees. The City is self-insured for dental claims. The City estimates the liability for dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not been reported. The estimated liability is insignificant and has not been recorded on the accompanying financial statements.

Note 9 - Pension Plans

Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan; however, participation in the plan is closed to new employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of varying percents of gross wages as follows:

Administration	1.71
Police	4.40
Wastewater	2.60

Note 9 - Pension Plans (Continued)

Annual Pension Costs - For the year ended June 30, 2004, the City's annual pension cost of \$249,744 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001 using the entry age normal cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility from an 8 percent return over a five-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 26 years.

Three-year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 213,534	\$ 256,818	\$ 249,744
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees not participating in the defined benefit plan through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes 8 percent of employees' eligible earnings, as defined in the plan document, and employee contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

The City's total payroll during the current year was \$2,593,080. The current year contribution was calculated based on covered payroll of \$2,570,654, resulting in an employer contribution of \$205,654 and employee contributions of \$82,120.

Note 10 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2001, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2001 is as follows:

Cumulative shortfall at June 30, 2003	\$ (143)
Building permit revenue	177,874
Related expenses:	
Direct costs	166,542
Estimated indirect costs	<u>11,727</u>
Total construction code expenses	<u>178,269</u>
Cumulative shortfall at June 30, 2004	<u>\$ (538)</u>

Note 11 - Contingent Liabilities

The City has been named in a few claims and lawsuits regarding property tax appeals requesting damages of various amounts, the majority of which do not state a specific maximum. The proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any. No liability has been provided for any of these matters in the June 30, 2004 financial statements.

Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to all full-time employees upon retirement. Currently, 11 retirees are eligible for post-employment health benefits. The City includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participant. For the fiscal year ended June 30, 2004, the City made payments for postemployment health benefits of approximately \$60,000.

The City's funding policy is on a pay-as-you-go basis, accounted for within the General Fund. During 2000, the City received an actuarial study to help quantify the potential long-term liability for retiree health care benefits.

Note 12 - Other Postemployment Benefits (Continued)

As of December 31, 2001 (date of actuarial valuation), the unfunded actuarial accrued liability (UAAL) totaled \$459,608. Significant actuarial assumptions used in determining the UAAL are the same as those used for the defined benefit pension plan (see Note 9) with the additional assumption of projected health insurance premium increases of 4.5 percent compounded annually, attributable to inflation.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of Grandville, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,554,563	\$ 4,599,563	\$ 4,551,860	\$ (47,703)
Licenses and permits	198,600	213,600	227,453	13,853
Federal sources	27,140	27,140	27,141	1
State sources	1,927,524	1,958,163	1,774,262	(183,901)
Fines and forfeitures	545,500	605,500	647,151	41,651
Other charges for services	686,976	690,976	729,507	38,531
Interest income	115,000	133,000	68,269	(64,731)
Rental income	5,000	5,000	6,285	1,285
Cable revenue	120,000	120,000	118,124	(1,876)
Other	6,150	45,565	86,401	40,836
Total revenue	8,186,453	8,398,507	8,236,453	(162,054)
Expenditures				
General government:				
Legislative	33,776	33,776	35,727	(1,951)
Assessor	149,062	149,062	118,335	30,727
Attorney	220,000	220,000	260,792	(40,792)
Clerk	99,431	99,431	97,929	1,502
Treasurer	285,915	285,915	281,727	4,188
Executive	222,730	222,730	243,101	(20,371)
Probation	352,443	352,443	355,620	(3,177)
Court	51,462	51,462	52,593	(1,131)
Building inspection	100,000	100,000	165,424	(65,424)
General administration	374,636	513,563	508,329	5,234
Judicial	585,895	585,895	581,996	3,899
Public safety:				
Narcotics enforcement	8,600	8,600	8,416	184
911 dispatch center	339,527	339,527	348,137	(8,610)
Police	2,414,913	2,379,913	2,462,162	(82,249)
Fire	858,291	843,692	806,141	37,551
Public works:				
Sidewalk maintenance	103,879	103,879	97,646	6,233
Parking lot maintenance	13,161	13,161	18,487	(5,326)
Highways, streets, and bridges	294,500	269,500	267,697	1,803
Sanitation and other	82,063	82,063	75,023	7,040
Recreation and culture:				
Cemetery	266,167	266,167	271,541	(5,374)
Special projects	432,965	432,965	410,895	22,070
Planning and zoning	55,928	55,928	44,034	11,894
Parks and recreation	384,976	404,976	349,340	55,636
Library	163,925	185,125	152,704	32,421
Other	82,775	82,775	63,361	19,414
Capital outlay	1,132,161	1,135,161	720,530	414,631
Total expenditures	9,109,181	9,217,709	8,797,687	420,022

City of Grandville, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Excess of Expenditures Over Revenue	\$ (922,728)	\$ (819,202)	\$ (561,234)	\$ 257,968
Other Financing Uses - Transfers out	<u>(364,805)</u>	<u>(265,000)</u>	<u>(265,000)</u>	<u>-</u>
Net Change in Fund Balance	(1,287,533)	(1,084,202)	(826,234)	257,968
Fund Balance - July 1, 2003	<u>4,390,654</u>	<u>4,390,654</u>	<u>4,390,654</u>	<u>-</u>
Fund Balance - June 30, 2004	<u>\$ 3,103,121</u>	<u>\$ 3,306,452</u>	<u>\$ 3,564,420</u>	<u>\$ 257,968</u>

Note: The General Fund budget was adopted on the basis of total revenue and expenditures. The amounts shown above are in greater detail than the budget adopted by the City Council and are shown for management analysis only.

City of Grandville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 400,317	\$ 400,317	\$ 303,924	\$ (96,393)
State sources	726,263	726,263	820,457	94,194
Local sources	-	75,000	75,259	259
Interest and rental income	25,000	25,000	21,185	(3,815)
Total revenue	1,151,580	1,226,580	1,220,825	(5,755)
Expenditures - Public works				
Administration	54,079	54,079	42,017	12,062
Snow removal	109,723	124,723	139,923	(15,200)
Signs and signals	117,884	162,883	136,651	26,232
Bridge	25,220	25,220	1,235	23,985
Street construction	-	-	101	(101)
Nonmotorized	25,000	25,000	27,231	(2,231)
Street maintenance	251,391	251,391	268,567	(17,176)
Capital outlay	1,192,000	1,267,000	435,186	831,814
Total expenditures	1,775,297	1,910,296	1,050,911	859,385
Excess of Revenue Over (Under) Expenditures	(623,717)	(683,716)	169,914	853,630
Other Financing Sources - Transfers in	180,274	180,274	204,357	24,083
Net Change in Fund Balance	(443,443)	(503,442)	374,271	877,713
Fund Balance - July 1, 2003	1,111,215	1,111,215	1,111,215	-
Fund Balance - June 30, 2004	<u>\$ 667,772</u>	<u>\$ 607,773</u>	<u>\$ 1,485,486</u>	<u>\$ 877,713</u>

Note: The Major Streets Special Revenue Fund budget was adopted on the basis of total revenue and expenditures. The amounts shown above are in greater detail than the budget adopted by the City Council and are shown for management analysis only.

City of Grandville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 300,000	\$ 300,000	\$ 402,704	\$ 102,704
State sources	260,906	260,906	280,071	19,165
Interest income	4,000	4,000	3,771	(229)
Total revenue	564,906	564,906	686,546	121,640
Expenditures - Public works				
Administration	34,885	34,885	27,685	7,200
Snow removal	69,532	77,533	88,157	(10,624)
Signs and signals	43,511	43,511	31,702	11,809
Street maintenance	242,098	242,098	240,321	1,777
Capital outlay	266,000	266,000	133,303	132,697
Total expenditures	656,026	664,027	521,168	142,859
Net Change in Fund Balance	(91,120)	(99,121)	165,378	264,499
Fund Balance - July 1, 2003	224,040	224,040	224,040	-
Fund Balance - June 30, 2004	<u>\$ 132,920</u>	<u>\$ 124,919</u>	<u>\$ 389,418</u>	<u>\$ 264,499</u>

Note: The Local Streets Special Revenue Fund budget was adopted on the basis of total revenue and expenditures. The amounts shown above are in greater detail than the budget adopted by the City Council and are shown for management analysis only.

Other Supplemental Information

City of Grandville, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	Storm Sewer Trunkage	General	
Assets			
Cash and cash equivalents	\$ 128,305	\$ 11,032	\$ 139,337
Investments	216,290	18,597	234,887
Receivables - Net	1,175	101	1,276
Restricted assets	-	28,672	28,672
Total assets	<u>\$ 345,770</u>	<u>\$ 58,402</u>	<u>\$ 404,172</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 525	\$ 525
Accrued and other liabilities	168	-	168
Total liabilities	168	525	693
Fund Balances - Unreserved - Reported in			
Special Revenue Funds	345,602	-	345,602
Debt Service Funds	-	57,877	57,877
Total fund balances	<u>345,602</u>	<u>57,877</u>	<u>403,479</u>
Total liabilities and fund balances	<u>\$ 345,770</u>	<u>\$ 58,402</u>	<u>\$ 404,172</u>

City of Grandville, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

	Special Revenue Fund	Debt Service Fund	
	Storm Sewer Trunkage	General	Total Nonmajor Governmental Funds
Revenue			
Charges for services	\$ 20,372	\$ -	\$ 20,372
Interest and rentals	4,691	731	5,422
Rental income	-	322,128	322,128
	<u>25,063</u>	<u>322,859</u>	<u>347,922</u>
Expenditures			
Current - Public works	40,928	-	40,928
Debt service	-	584,738	584,738
	<u>40,928</u>	<u>584,738</u>	<u>625,666</u>
Excess of Expenditures Over Revenue	(15,865)	(261,879)	(277,744)
Other Financing Sources - Transfers in	<u>2,579</u>	<u>265,000</u>	<u>267,579</u>
Net Change in Fund Balances	(13,286)	3,121	(10,165)
Fund Balances - Beginning of year	<u>358,888</u>	<u>54,756</u>	<u>413,644</u>
Fund Balances - End of year	<u><u>\$ 345,602</u></u>	<u><u>\$ 57,877</u></u>	<u><u>\$ 403,479</u></u>

City of Grandville, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds June 30, 2004

	Agency				
	Recreation	Series 2000 Bond	County and School Tax	59th District Court	Total Agency
Assets - Cash and cash equivalents	<u>\$ 68,162</u>	<u>\$ 84,141</u>	<u>\$ 13,347</u>	<u>\$ 17,651</u>	<u>\$ 183,301</u>
Liabilities					
Accrued and other liabilities	\$ 68,162	\$ 84,141	\$ 2,463	\$ 17,651	\$ 172,417
Due to other governmental units	<u>-</u>	<u>-</u>	<u>10,884</u>	<u>-</u>	<u>10,884</u>
Total liabilities	<u>\$ 68,162</u>	<u>\$ 84,141</u>	<u>\$ 13,347</u>	<u>\$ 17,651</u>	<u>\$ 183,301</u>



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October 8, 2004

Honorable Mayor and Members of the City Council
City of Grandville
3195 Wilson, SW
Grandville, Michigan 49418

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Grandville for the year ended June 30, 2004 and have issued our report thereon dated October 8, 2004. In addition to the audit report, we offer the following comments and recommendations for your consideration:

PREPARATION FOR THE AUDIT

It continues to be a pleasure to work with the staff in the Finance Departments. In particular, we would like to thank Tom Guinther and Tammy Butler for their efforts in preparing for the audit.

OVERVIEW OF FINANCIAL CONDITION

During the year ended June 30, 2004, the City's financial condition declined as General Fund expenditures exceeded revenues by approximately \$826,000. As a result, fund balance at June 30, 2004 decreased to approximately \$3,564,000.

STATE SHARED REVENUE

State shared revenue accounts for approximately 16 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been less than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

STATE SHARED REVENUE (continued)

A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2000	\$504,116	\$1,059,107	\$1,563,223
2001	546,401	1,055,341	1,601,742
2002	491,573	1,066,092	1,557,665
2003	415,422	1,084,140	1,499,562
2004	275,372	1,072,364	1,347,736

We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The Legislature recently approved HB 5319 which would earmark one half of one cent of the state gasoline tax for the preservation, improvement, or reconstruction of existing bridges. It is estimated that over the next ten years that approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well as seven, five member, regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

PROPERTY TAX MATTERS

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

HEALTH CARE COSTS

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

Additionally, it has come to our attention that MERS, your pension carrier, has recently established a Health Insurance Company. It is our understanding that MERS intends to pool its 600 plus Government members and provide health insurance plans beginning January 1, 2005. Their goal is to lower health insurance premiums by decreasing administrative costs. The City may want to obtain a competitive quote from MERS as another option to control health care costs.

PENSION COSTS

As reported on the actuarial report issued December 31, 2003 for the City's pension plan, the actuary determined that the City's total actuarial accrued liability amounted to \$12,291,023. Net assets available for benefits amounted to \$9,066,979, resulting in an unfunded actuarial accrued liability of \$3,224,044. During fiscal year 2003/2004 and for the last several years, the City has contributed the entire amount recommended by the actuary, based on certain assumptions. Currently the unfunded liability is being amortized over a period of 26 years, with the amortization period being decreased each year by a factor of two years. Although this accelerates the amortization period, we agree with the City Finance Director, that the City should consider further shortening this amortization period to coordinate with the average retirement age of those remaining in the Defined Benefit group. It is our understanding that this is allowed by MERS and would benefit the City by further stabilizing the Pension Plan.

RETIREE HEALTH CARE BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government wide financial statements*, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007 or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

It should be noted the City has been proactive in this area and has already completed an actuarial evaluation as of December 2001. An internal reserve has been set-up by the City that exceeds the actuarial estimate.

TECHNOLOGY PLAN/ E-GOVERNMENT PLAN

In an ever-changing world it is hard to keep up-to-date on the best technology. Plante & Moran offers a technology plan review. A technology plan is a plan to determine the future state of technology within the organization. It consists of a study of current technology and communications costs, examines proposed improvements, makes recommendations on proposed system requirements, evaluates e-Government service opportunities, assess network security, and establishes associated up-front and continued costs. Please contact Plante & Moran if you are interested in a plan review.

We would like to thank the Mayor and the City Council for the opportunity to serve as the auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us during our audit. As always, please feel free to call with questions regarding the information above or that which is presented in the general purpose financial statements.

Very truly yours,

PLANTE & MORAN, PLLC



Robert J. Brazda



Karen A. Courtade